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C O N F I D E N T I A L SECTION 01 OF 02 BEIRUT 001258

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SUBJECT: LEBANON: TELEPHONE PRIVATIZATION SET TO GO

Classified By: Charge William Grant for reasons 1.4 (b) and (d)

SUMMARY

¶1. (C) Key players in the GOL program to privatize the telecommunications sector, including Minister of Telecommunications Marwan Hamadeh, met with the DCM and EconOff to review the status of the program. All are in agreement that the plan can proceed on time if PM Siniora and the Higher Council for Privatization give the green light. The current political instability will probably delay the timeline, and may have a cost impact on potential revenue. There are no internal or market interests hampering GOL efforts. End Summary.

A SHOW OF UNITY

¶2. (SBU) DCM and EconOff met with Minister of Telecommunications Marwan Hamadeh August 8 to discuss the status of GOL efforts to privatize/corporatize the telephone sector, a key benchmark in the USG's Paris III commitments to Lebanon. All key GOL players were present, including: Gilbert Najjar, Chairman of the Owner Supervisory Board, which represents the GOL as owner of the two mobile companies; Dr. Abdul Munhem Youssef, Director General of the Ministry of Telecommunications (MOT) and Chairman of Ogero, the GOL fixed-line telephone company; Moussa Khoury, the attorney for the MOT; and Dr. Kamal Shehadi, Chairman and CEO of the newly-formed Telecommunications Regulatory Authority (TRA), who was called by Hamadeh to come to the meeting.

PRIVATIZATION ON TRACK

¶3. (C) According to everyone present the GOL is in the final stages of its efforts to sell the two mobile telecommunications licenses, as well as the fixed assets of the two government-owned mobile companies, Alpha and MTC. The GOL contracted with JP Morgan and Citicorp to develop a plan for the process, and although there are still some questions on the part of the Ministry of Finance (MOF), they do not appear to be major obstacles. The launch of the road show leading up to the auction of the licenses will be September 14, if the Prime Minister and the Higher Council for Privatization (HCP) give the green light. At this point, since all technical issues are satisfied, it is a purely political decision to proceed.

SALE OF ASSETS

14. (C) Since the closure of parliament in 2006 there has been disagreement within the GOL as to whether the fixed assets of the current government-owned companies can be sold.

Although the GOL did have a law before parliament to allow this specific sale, it has withdrawn that law since the MOT lawyers, among them Khoury, have interpreted the law to mean that the GOL does have the right to sell the assets, and the sale can proceed without further legislation. This is the position always held by Shehadi and the TRA.

FIXED-LINE OPERATION

15. (C) The GOL is also moving ahead on the corporatization of the fixed-line company, Ogero, which also is owned by the GOL. It expects to sign an agreement with consultant Grant Thompson to assist in the process. The appointment of the Board of Directors will be announced in one of the next two meetings of the Council of Ministers. (Note: This was reportedly a highly charged issue within the GOL due, in large part, to the intention of Youssef to secure a role as Chairman of the new company. End note.) Booz Allen Hamilton also has been engaged to make a strategic study of two parallel plans: how to corporatize, and the role of the board. It will take about six months to complete the corporatization, at which point it will be a political decision whether to move ahead with privatization.

WHAT IS IT ALL WORTH,
AND WHO IS BUYING?

16. (C) The Ministry of Finance must do the valuation of the
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sale and ultimate revenue stream. The GOL will cancel the airtime tax, but the details of revenue sharing vs. taxation have not yet been finalized. The revenue sharing scheme, which might be easier to sell to the public than any notion of taxation, would be limited to between zero to ten percent, plus applicable required fees, for example to support the TRA. The sale of the licenses is targeted for early 2008, and not later than May, because at that point new management agreements would be required with Alpha and MTC, or a penalty paid. Hamadeh said he did not believe the GOL should proceed with the sale without a new president in place (November 26 at the earliest), because the value of political stability could be as much as \$.5 billion for each license. Shehadi is in favor of an auction, but there still appears to be some disagreement about the methodology of the sale.

FIXED LINE IPO

17. (C) After the completion of Ogero's restructuring, the new company, Libantel, could be sold. Initial thinking is that 40 percent of the shares would be sold, but the GOL will make its final decision after the company is corporatized and the value can be determined. The legal requirements call for 33 percent of the shares to be held by Lebanese citizens, with a chairman and one-third of the board to be Lebanese as well. Current thinking among the group is that 25 percent of the shares will be listed publicly for sale on the Beirut Stock Exchange and possibly an exchange in the Gulf region. Although the GOL expects to sell the mobile licenses well in advance of Libantel, should there be slippage, the three companies might be sold at one time. The cabinet must make the decisions regarding the IPO and the structure of the offer in the next week to ten days, according to the group.

ALL IN ACCORD

18. (C) Shehadi explained that there are no vested interests

within the GOL now slowing down the process. He expressed some concern with Alpha, but remained confident that the MOT is managing that issue. Najjar concurred that there are neither market concerns nor internal concerns that could harm the process in any way.

COMMENT

¶11. (C) Comment: It was reassuring to see that all the key players appear to agree on the key issues regarding privatization of the telecom sector, and people who previously appeared to have vested interests, like Hamadeh and Youssef, are a part of the chorus. However, no one believes the proposed sales will proceed without political stability and more importantly, a pro-privatization government. End comment.

GRANT